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**Please note that this is a draft report that has been prepared by staff based on their interpretations of the Task Force findings and recommendations. None of the language included in this draft has been approved by Task Force members, and nothing in the report should be considered final until approved by the full Task Force and incorporated into the final report.**

## **Introduction: An Agenda for Educational Excellence**

Wisconsin public schools are at a crossroads. Throughout its history, Wisconsin has been a national leader in education. Starting with its role in promoting public kindergarten more than 130 years ago and continuing through the present when it consistently ranks first in college entrance exam scores, Wisconsin has been synonymous with quality public schools. Businesses come to Wisconsin because they can benefit from a well-educated workforce and their employees can enjoy a quality public school system. Parents decide to raise their families in the state because they know the school down the street can compete with virtually any in the rest of the country.

Throughout its work, the Task Force has been impressed by the quality of Wisconsin public schools – including their teachers, administrators, and the variety and excellence of the educational opportunities they offer. The citizens of the state who provide the financial resources to fund schools should be proud of their investment and commended on their commitment to our children. However, the Task Force believes that simply maintaining the quality of the current system will not be adequate to address the challenges the state will face in the 21<sup>st</sup> Century. Wisconsin is changing and so must its public schools.

The knowledge and skills current students will need to be successful bear little relation to what was needed in the past. While the grandparents of today's students could often achieve a middle class income with only a high school education, those days are long gone. For Wisconsin and its citizens to prosper in a global economy, our schools must not only produce students who graduate from high school, but are prepared to excel in college.

The face of the students is also changing. Wisconsin public schools are becoming more diverse—racially, ethnically, and economically. Two decades ago, only one in ten students were minorities; now, almost one in four are. As our students become more diverse, we must be vigilant that our schools promote opportunity by giving all our children an equal footing so everyone has a chance to succeed. Educating children with special needs has become an increasingly expensive responsibility of our schools and too often the current financing system has pitted their needs against those of other students.

The demographics of the state are changing in other ways that will have significant repercussions on our public school system. Declining numbers of children of school age, especially in many of our rural areas, will force school districts to adopt new ways of providing quality education, often

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with fewer financial resources. The aging of the state's population, combined with the fast growth in residential property values, means citizens are paying ever-increasing amounts to support public schools, even though fewer have children attending them.

When the Task Force was first appointed, many members of the public believed that the group's sole mission was to review our current school funding system and recommend a new formula for financing schools. Addressing revenue and finance was only one aspect of our charge, however. The Task Force, as named, was focused on promoting educational excellence. The following areas of concern, and the recommendations that accompany them, represent our best efforts to address the 21<sup>st</sup> Century challenges that Wisconsin's public schools face. They are priorities and proposals that reflect months of public input and study, and the consensus conclusions of 29 diverse Task Force members representing the wide variety of Wisconsin citizens who care about education.

Throughout its deliberations the Task Force recognized that the state is in the midst of its toughest financial challenge in recent history and the near future will likely offer, at best, only modest improvements in its fiscal condition. As the proposal on property taxes demonstrates, the Task Force is very attuned to the opinions of taxpayers who feel that they are at their limit for funding government programs, even for the most worthwhile activities such as public schools. Consequently, the Task Force did not advocate for a large increase in overall education spending to pay for a Cadillac-style plan for funding public schools. Instead, aware that Wisconsin already ranks in the top ten nationally in education spending, the Task Force limits new spending proposals to specific programs that have track records of success or are very closely tailored to addressing urgent problems.

Undoubtedly, critics will simply total up the sum of all the range of proposals offered in the report and declare it too expensive. However, that would be as simple minded as adding up the cost of all the menu items at a fast food restaurant and declaring it too pricey. The recommendations are a list of options for the Governor, the State Superintendent of Public Instruction and the Legislature to consider. The Task Force neither expects nor recommends that all of the suggestions be undertaken at once. Instead, it is our hope that the report serves as an agenda of priorities as state government begins to craft its next budget.

## **Academic Achievement**

The achievement gap related to economic disadvantage, race and ethnicity is one of the key problems facing education in Wisconsin. While Wisconsin's overall high school graduation rate is high, the gap between white students (87%) and African-American students (44%) was the largest among the 33 states studied in 2001. For Hispanic students (55%) Wisconsin had the 3<sup>rd</sup> largest gap among the 23 states reporting data. Significant achievement gaps also exist between these groups on the 4<sup>th</sup> and 8<sup>th</sup> grade reading and math tests administered as part of the federal National Assessment of Educational Progress (NAEP) program. The disparities are also evident by economic status. In schools where fewer than 25% of the students live in poverty, 94% of the students graduate from high school. However, in those where more than half the students come from impoverished homes, only 72% graduate. Similarly, 87% of the students in low poverty schools score proficient in reading compared to 68% in high poverty schools.

The Task Force concludes that the current school finance system has not maintained adequate state support to provide needed services to economically disadvantaged, minority and non-native English speaking students. As a state, we cannot be satisfied with the quality of our public schools until gaps in achievement are solely the result of effort and ability, and not linked to race, economic status or ethnicity.

Many of the Task Force's recommendations are focused, in one way or another, on the paramount goal of reducing, and, ultimately, eliminating the achievement gap that exists between economically disadvantaged children, children of color, and their peers. Early childhood education is one of the best investments we can make to eliminate the achievement gap before it grows. Efforts to attract and retain high quality teachers, improve the diversity of the teaching workforce, and link our best teachers to the most challenging educational environments, are other steps to improve the classroom environment and create better outcomes for our children. In addition to these measures, the Task Force recommends improving the successful Student Achievement Guarantee in Education (SAGE) small class size program for kindergarten through 3<sup>rd</sup> grade by increasing the current reimbursement rate and allowing additional schools to participate. The reimbursement rate for the program has been held constant over the years, even as costs have been climbing, and too many districts must choose between eliminating the effective SAGE program or cutting back on other crucial educational offerings.

Another key component in addressing disparities in academic achievement is adequate funding for bilingual and bicultural programs. While Wisconsin's population of school age English language learners has tripled from 1.3% in 1989-1990 of total state enrollment to 3.9% in 2002-2003, bilingual-bicultural categorical aid has not been increased since the early 1990's. The Task Force proposes significantly increasing bilingual-bicultural education categorical aid appropriation to guarantee that these children have the opportunity to achieve the same level of academic excellence as native English speakers. They, like economically disadvantaged children and special needs children, were also specifically identified for careful consideration in *Vincent v. Voight*, the 2000 state Supreme Court decision which upheld the constitutionality of the current school finance system. In addition, the Task Force recommends providing additional funds on a per-pupil basis to school districts that do not meet the enrollment thresholds to be required to offer bilingual-bicultural education programs, but have bilingual-needs children who should be served.

The Task Force also recommends exploring a number of innovative solutions to bolster academic performance in areas where results lag. For example, the Task Force suggests that a 10-school pilot study be conducted in high poverty areas to determine whether an extended school year would result in improved educational outcomes. The Task Force also advocates exploring the concept of establishing a residential school for children from homeless families.

To address the critical issue of truancy, the Task Force favors a study of the consequences of using average daily attendance for all 180 school days as a basis for state aid. Currently, aid is determined by the count of the number of students attending school on the third Friday in September and second Friday in January. This would provide an incentive for districts and individual schools to focus their attention on boosting attendance every day of the school year (not just on two specific days a year) and decreasing truancy. It does little good to make the investments in quality teachers and focus on improving educational programming if the students do not even bother to show up for class. The Task Force recognizes that it is the responsibility of families to make sure their children get to school, but when they do not, taxpayers often are forced to foot the bill through higher social welfare and corrections costs.

The Task Force also strongly believes that another crucial step in reducing the achievement gap is to create a positive educational climate, among both teachers and students, that respects the diversity of the students. Such an environment should foster high expectations for each and every student because only by challenging every student, and expecting them to succeed, can we begin to reduce disparities in academic performance.

While we, as a state, must do more to insure an equal opportunity for success for all of Wisconsin's children, we cannot ignore the responsibilities of parents. There is a strong need for parents and other significant adults in children's lives to be an integral part of the educational process. The best teaching will have little effect if there are not adults outside of school who guarantee that students are actively engaged in the learning process. One of the most consistent findings in educational research over the past 40 years is that parental involvement in education is the single most significant determinant of student academic success. Just as doctors depend on patients to follow their treatment plans, teachers depend on students' families to make sure their children do homework, study and come to school ready to learn. The availability of well-structured before and after school programs, integrated with the school's curriculum, can help, but without family support, the success rate declines. The Task Force recommends additional investments in after-school programming and parent education efforts. Reflecting our limited resources, the Task Force suggests that these efforts be targeted to the lowest-income schools and areas in the state.

### **Attracting and Retaining Quality Teachers**

If this Task Force could achieve one goal, it would be to improve the chances that every Wisconsin student has a quality teacher. This is one area where decades of academic studies confirm the common sense each of us learns first as students, then again as parents: nothing matters more to children's education than the quality of their teachers. We can build state-of-the-art classrooms, equip them with modern computers, buy the best textbooks, and hire the best administrators, but unless there is a quality teacher leading the class, we have failed our children.

Fortunately, most students in Wisconsin are blessed with quality teachers dedicated to educating the next generation. Yet, we cannot be satisfied with our overall quality, when we know attracting and retaining quality teachers to some of our toughest assignments—whether by geography or subject matter—lags behind our goals. Nor can we ignore the troubling signs of increasing retirements and mid-career teachers abandoning the profession that will force our schools to replace far too many teachers. Finally, as Wisconsin's public school students have become much more diverse in recent years, the diversity of the teaching profession has not kept pace.

The Task Force strongly believes that a necessary first step to insure Wisconsin's students of tomorrow have the teachers they need is to end the qualified economic offer (QEO). The QEO authorizes school boards to limit the combined increase in teacher salary and fringe benefits to 3.8 percent annually, while requiring school boards to give first priority to funding the existing fringe benefit package. The reasons for the repeal of the QEO are many, but the Task Force focused on three.

First, is the simple reason of fairness. No other group of employees, public or private, is singled out and treated the way that educators are under the QEO. The Task Force heard repeatedly that the QEO has a significant adverse effect on the morale of teachers, discouraging many about a career they once viewed as a calling.

The second main problem with the QEO is that it has all but eliminated the ability of districts to negotiate compensation systems that reward teacher effectiveness rather than longevity and continuing education.

For the vast majority of Wisconsin school districts, the current standard salary schedule typically pays teachers solely based on the number of credits they have earned (regardless of whether they

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are relevant to the teaching subject) and the number of years they have been a teacher. The Task Force recommends this system be replaced with one that rewards the acquisition of knowledge and teaching skills that directly relate to improved academic performance. This proposal represents a dramatic departure from the status quo, but one that is needed both to improve student performance and to attract and retain the quality teachers Wisconsin will need in the 21<sup>st</sup> Century. In addition, the Task Force recommends incentives be available to reward districts that implement compensation increases for those teachers who acquire skills and knowledge that are linked to improved student achievement. The Task Force believes that the Department of Public Instruction's revised licensing standards (PI 34) are an important component of a new system that will reward Wisconsin's best teachers.

Additional accountability will lead to greater public willingness to invest in quality teachers, and additional compensation will create incentives for teachers to go above and beyond their minimum requirements to search for more innovative ways to improve student achievement. Higher compensation for our best teachers will act as an incentive for them to remain in the profession. We should not lose our best teachers because they believe their quality is not valued.

The third major problem with the QEO is that the system discourages innovative efforts to control health care costs. Since districts that wish to impose the QEO must maintain the existing benefit package, the likelihood of negotiation on health care benefits is diminished. Teachers have little reason to bargain health care benefits, as their salaries have been artificially constrained for over ten years. The end result of the QEO has been to limit salary increases while the cost of fringe benefits, especially for health care, increase at a faster rate. Since the QEO began in 1993-94, the state's ranking on average teacher salary has dropped from 14<sup>th</sup> to 24<sup>th</sup> in the nation. Data on fringe benefits, however, shows that Wisconsin has consistently ranked 3<sup>rd</sup> or 4<sup>th</sup> over the same period. According to data reported by the Wisconsin Association of School Boards, between 1984-85 and 2002-03, health insurance costs for family coverage increased from less than 14% of a beginning teacher's salary to over 45%.

The Task Force believes that salaries for teachers must become more competitive with our neighboring states if we are going to attract and retain the best teachers, and particularly encourage promising young people to enter the profession. At the same time, the Task Force is very concerned with the increasing costs of health care and its effect on the ability of school districts to maintain quality educational offerings. The Task Force recommends that, in the absence of the QEO, teachers and school districts be strongly encouraged through the collective bargaining process to search for more innovative solutions to this problem. The Task Force recognizes that the rising costs of health care are a national issue affecting far more than just Wisconsin teachers, but we also believe some savings may be possible without sacrificing the fundamental quality of coverage. However, any changes should be accomplished through the collective bargaining process and not unilaterally imposed on teachers.

The Task Force considered seriously the concerns that the QEO could not be repealed while maintaining the revenue caps. Task Force members believed, however, that current arbitration criteria, which stipulate that the greatest weight should be given to revenue caps, and greater weight be given to local economic conditions, address these concerns. These criteria were implemented with the inception of revenue caps in 1993-94, and have remained virtually untested, as arbitrations have all but ceased since the onset of the QEO. As arbitrations become more common in the absence of the QEO, the Task Force, including current and former school board members, believes these criteria are critical components that will help to insure that salary increases do not exceed a district's ability to pay. In addition, as the example of health care costs

demonstrate, the QEO effectively limited growth in salaries, but it has been much less effective in controlling overall compensation costs.

As important as repealing the QEO is, there are several other steps needed to help Wisconsin schools attract and retain the best teachers. The problem of attracting more teachers of color to better reflect the growing diversity of Wisconsin students is one of the most vexing problems the Task Force encountered. The problem is much more complex than convincing more college graduates of color to become teachers. For example, even if every African-American University of Wisconsin graduate in the past decade decided to go into teaching, there would still be a lower proportion of African-American teachers than African-American students. The Task Force advanced some specific ideas to address this disparity, but a larger commitment must be undertaken to improve the high school graduation rate of students of color; increase the likelihood of them attending college; and help diminish the significant difference in college graduation rates for students of color.

The Task Force also believes that a central priority should be matching some of our best teachers with the toughest challenges. Too often the students in our poorest achieving schools end up with our most inexperienced or less effective teachers, making their chances of success even lower. The Task Force proposes a variety of innovative ideas to create incentives for teachers to undertake these most difficult assignments.

### **Early Childhood Education**

The Task Force believes that early childhood education is one of the best, most cost effective investments the state can make. Research convincingly demonstrates the many long-term benefits of high quality early childhood education. Children who participate in early education programs demonstrate higher academic outcomes and are more likely to graduate from high school. They are less likely to need special education services, and are less likely to become involved with the criminal justice system. The benefits of early childhood education are particularly true for children from low-income families where parents, often single parents, do not have the time or the resources to provide adequate learning environments for their children at home or to afford high quality day care. Research shows that the achievement gap between economically disadvantaged children, children of color and their peers exists before children even enter school, but that early childhood education programs help to reduce this gap.

Measures to improve the quality of, and expand access to, early childhood education are smart, proven investments that will yield significant taxpayer and societal benefits in the future. The return to taxpayers for each dollar invested in early education in the form of lower social welfare and criminal justice costs and higher future tax revenues would rival the investment successes of Wall Street wizards like Warren Buffett.

While Wisconsin ranks high nationally in the percent of children enrolled in public school administered 4 year-old kindergarten programs (4K), four out of five 4 year-olds still do not participate. Statewide, less than 45% of school districts offer 4K programs, and only 23% of 4 year-olds are enrolled. Wisconsin must do more to improve the quality of programming offered to our youngest citizens, especially for economically disadvantaged children, including improving the quality of teachers, programming, and services offered to these students. The Task Force believes that Wisconsin must build off the strengths of its existing early care and education system in order to ensure universal access to early care and education services.

For more than 130 years, since the introduction of the first public kindergarten in the state, serving both 4 and 5 year-olds, Wisconsin has been a national leader in early childhood



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education. While the Task Force believes we should be proud of our tradition, maintaining our history of excellence in public schools will require leading the nation again in early childhood education. As other states move towards full-day 5 year-old kindergarten (something 90% of Wisconsin children already benefit from) or explore starting 4K programs, Wisconsin must greatly expand access to 4K programs so that parents all across the state will have the opportunity to choose whether their child would benefit from 4K. Although Wisconsin still ranks high nationally in early education, other states like Georgia, which offers pre-school programs to all 4 year-olds, and Oklahoma, which enrolls 65% of their children in 4K, have moved to the forefront in access to early education.

The Task Force recognizes that there are serious obstacles to overcome to insure that Wisconsin can regain its leadership role. First, there must be a solid commitment to supporting 4K programs. Legislative opposition over the past several years has created uncertainty about the future of the program and has discouraged new districts from making the expenditures necessary to start a program. Second, the current school financing formula disadvantages school districts that are trying to implement new 4K programs because it forces the districts to bear most of the cost of the program in the initial years, an especially difficult situation with revenue caps. Third, if school districts fail to work in partnership with local Head Start and childcare providers, divisive conflicts may undermine public support for 4K programs and great opportunities for curriculum coordination are missed.

The Task Force recommends improving on Wisconsin's already sound base by funding start-up grants to help districts afford to begin 4K programs. Further, the Task Force recommends rewarding districts that adopt community approaches to integrate childcare providers with the 4K programs. LaCrosse, Wausau, Sheboygan, and many other districts around the state have become national models at creating universal care options for all parents and four-year-old children in their districts, and the Task Force encourages other districts that follow their success.

Expanding access to 4K programs is a vital step to improving early childhood education in the state, but it is not the only needed change. One great advantage of 4K programs is that they guarantee children will benefit from a teacher with a bachelor's degree. Research shows that children taught by an early childhood teacher with a bachelor's degree have higher educational outcomes. Outside 4K classrooms, about three-quarters of the people who work with young children have less than a 2-year technical college degree. To improve the quality of Wisconsin's system of early childhood education and care, the Task Force recommends additional investments in the successful Teacher Education and Compensation Helps (TEACH) and Rewarding Education with Wages and Respect for Dedication (REWARD) programs to attract and retain highly qualified childcare teachers. These programs help child care workers add to their educational backgrounds, providing them with the skills needed to promote improved childhood development, and then giving them incentives to remain in the profession.

To insure that children receive high quality childcare prior to entering 4K programs it is necessary to maintain the state's commitment to providing full funding for the Wisconsin Shares program that provides childcare subsidies to low income families. Promoting high quality care for the nearly 50,000 low income children who participate in this program is a vital step in making sure they are ready for success once they enter the public school system.

## **Special Education**

Over the past decade state aidable special education costs have increased by more than \$350 million, but the state categorical aid for special education has only increased by \$40 million. Since state and federal law requires that special education services be maintained, school districts

have been forced to find necessary additional funds often at the expense of other educational offerings because of the constraints of revenue caps. Too often this creates a situation that pits the interests of special needs children, especially those who need high cost services, against the educational needs of the rest of the student body. The revenue cap system is based on the premise that different districts have comparable per pupil spending needs that can be met by standard increases in spending. However, districts with disproportionate numbers of special education students face increased cost pressures, with little prospect of increased categorical aid.

In response to these needs, the Task Force recommends creating a new categorical aid program to reimburse costs incurred for high-need, low-incidence special education students. These children require more services, which may be very costly for a district to fund. These costs are particularly difficult for a small school district or one whose unusually high quality special education programming attracts a number of families to the district. Further, the Task Force recommends significantly increasing the special education categorical aid appropriation to more adequately meet the educational needs of this population, which was specifically identified in *Vincent v. Voight*.

The Task Force also concludes that investments in early education programs, including 4K and quality childcare, can lead to reduced special education costs later in school. For example, the Wausau school district experienced a 25% reduction in the number of children identified with learning disabilities at the elementary level over a five-year period after their investment in 4K and other early intervention programs. Their success should be a model for the rest of the state that wise early investments can pay big dividends both for children and balance sheets.

### **Reforming School Finance**

Reviewing the current school finance system was a core focus of the Task Force's work. Crafting a statewide formula that promotes educational excellence while fairly dealing with the diverse needs of the state's 426 school districts and their students is a Herculean undertaking. The Task Force carefully considered alternative school finance plans and studied the experiences of other states. The Task Force also devoted considerable attention to isolating specific problems with the current system and exploring possible modifications that would ameliorate them.

Even though the current school finance formula is complicated in its application, the system is founded on the simple premise that every child, regardless of whether he or she lives in Kenosha or Superior, Elmbrook or Eau Claire, should have roughly equal property tax effort supporting their education. More state aid is directed to those students in the most impoverished districts, and less aid is allocated to the areas where property wealth is the greatest. Measured by its effect in equalizing spending per pupil across the state, the current system is reasonably successful in that 75% of the state's school districts spend between \$7,000 and \$9,000 per pupil for instructional and administrative costs. Except at the very extremes of property wealth, the level of spending per pupil is not dependent on the property wealth of the community. Indeed, despite the many critics of the current system, numerous other states are now involved in litigation and revising their funding formulas with the goal of achieving the type of equalization that Wisconsin already achieves.

In a time of limited state financial resources, significant changes in the current school finance system would inevitably create winners and losers. Instead of bringing people together to work to improve public schools, such efforts would likely divide the state, depending on whether computer spreadsheets showed a district gained or lost under a new proposed formula. Consequently, the Task Force concluded that it would be wiser to build off the successes of the



current formula and repair some of the weaknesses, rather than to start over with a different approach.

The Task Force heard detailed complaints about how the current system fails to serve the needs of a variety of types of districts, including those experiencing declining enrollment and small rural districts. Instead of re-writing the entire formula, the Task Force addresses these issues through more targeted recommendations designed to deal with the problems these districts face.

The Task Force believes that some of the major problems with the current system are the result of the failure of separate categorical programs to provide adequate support to school districts facing higher than average costs in specific areas (for example, more children living in poverty, special needs children, English language learners, or high transportation expenditures). Since school districts do not receive sufficient categorical aid, they must pay for these expenditures within the constraints of revenue caps. For districts that face numerous cost pressures in these areas, the revenue caps, which allow a fixed dollar amount increase per pupil regardless of any variation in their educational needs, are insensitive to their greater per pupil costs. The Task Force's recommendations to commit additional resources to fund categorical aid programs for special education, bilingual education, programs for high-poverty students, and transportation would lessen the competition for scarce dollars under the revenue caps. Since categorical aids are outside of the revenue caps, these additional resources will help address the problem of the higher costs faced by districts with disproportionate numbers of special needs, economically disadvantaged, or bilingual students, or with higher transportation costs. By increasing categorical aids, instead of merely raising the revenue cap levels, there is more accountability that the funds will be appropriately spent on the specific problems that need addressing.

Since the Task Force firmly believes in local control, it grappled with the effects that revenue caps are having on districts. The Task Force concludes that to remove them would only heighten the friction between the public schools and the property tax payers. Given the current level of state commitment (65% of state-local education costs), and in light of the Task Force's recommendation that school property taxes be reduced by over 40% through additional state aid, the Task Force did not recommend the repeal of revenue caps. With the state providing such a large share of education dollars, it is viewed as necessary that spending does not rise in an uncontrolled manner to draw even more state support. In addition, the goal of lowering property taxes by replacing property tax dollars with sales tax revenue would be diminished if districts could raise their levies without limit.

However, the Task Force did identify several key aspects of the revenue cap formula that need adjusting to deal with low revenue schools and declining enrollment. The Task Force also recommends changing the provision of the current revenue caps that actually encourages school districts to levy to their maximum rate for fear that they would lose that levy ability in future years.

#### **Establishing Wisconsin's Foundation Level**

The Task Force reviewed possible alternative school financing systems, including a foundation plan that is based on the premise that the state's role is to guarantee a minimum level of funding for each student. One attractive feature of the foundation plan is the idea that spending in each district could be, at a minimum, at a level deemed necessary to provide an adequate education. That admirable goal was weighed against two key benefits of the current system: the confidence in local control and the relative success of the current formula in promoting the equalization.

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One area where the goal of guaranteeing an adequate level of funding for each student might have its biggest impact is in some of Wisconsin's lowest spending districts. With current revenue caps, a district's spending level is based on the decisions of school boards more than a decade ago and then adjusted annually from that base. The lowest spending districts are governed by "the low revenue ceiling," an arbitrary number modified with no attention to adequacy by the Legislature since its creation over a decade ago.

The Task Force recommends that a professional "cost out" study be conducted to determine what an adequate level of spending is for an average child in Wisconsin. The "cost out" should seek input, not only from the academic community, but also from parents, teachers, administrators and the business community. The "cost out" study should be a way to build a statewide consensus on what we, as a state, believe constitutes an adequate education. The result could then be used to set the "low revenue ceiling" at a more meaningful number. This revised ceiling would, in effect, be a voluntary "foundation" funding level for Wisconsin school children, so much so that the Task Force recommends renaming the "low revenue ceiling" the "adequacy standard." This voluntary measure will insure that in the lowest spending districts, school boards will be able to increase their spending to the amount deemed to be adequate to guarantee a sound, basic education for every child. The goal of this change is simple: under the new plan every local school district will be allowed to invest in their students' education the amount that provides them with an adequate education, regardless of arbitrary formulas. The change will incorporate some of the positive features of the foundation plan, while still maintaining Wisconsin's tradition of local control so that communities can make decisions for themselves whether they can provide their children a quality education at a lower cost.

## **Declining Enrollment**

Declining enrollment is one of the most fundamental issues now facing schools in our state. Demographic projections indicate that it will become even more significant over the next ten years as our statewide school-age population is projected to continue to decline. Nearly 60% of school districts are currently experiencing declining enrollments. Under the existing school finance system, as districts' student population decrease, both their revenue cap limits and level of state support decline. Unfortunately the formula is largely based on the unrealistic assumption that costs decline in a linear fashion. However, declining from 25 to 20 students in a class usually does not result in a 20% cost savings as those 20 students still need a teacher and a classroom, and instead the cost savings are only at the margin.

The Task Force concludes that revenue controls, as currently constructed, are having a particularly detrimental effect on these districts, and has recommended additional revenue cap relief for them. This decline is occurring and will continue to occur all over the state and in urban, suburban and rural districts (both large and small), but it is most common in the small rural districts in northern and southwestern Wisconsin.

Yet, revenue limit relief alone will not be enough for declining enrollment districts that will lose a significant percentage of their student population in the very near future. School districts around the state must find new ways to deliver educational services and insure a sound, basic education for significantly fewer students. In response to these challenges, the Task Force recommends that all school districts, regardless of current enrollment levels, be required to prepare a long-term, comprehensive Master Plan. This plan would require districts to work with the public to create a long-term strategy for how education will be delivered to students in the district, including how to deal with the educational and functional effects of significant declines in enrollment, and, as a result, fewer dollars.

### **Small Rural Districts**

With about one in five of the state's 426 districts having enrollments of fewer than 500 students, the school finance system needs to be sensitive to the special challenges faced by smaller districts that often lack the economies of scale of larger districts, but operate under the same revenue constraints and aid formula. Many of the Task Force's recommendations, such as those concerning special education and declining enrollment, will be of particular value to smaller school districts. In addition, the Task Force recommends increasing transportation categorical aid so that districts with especially high transportation costs will not need to cut necessary educational programs just to pay for getting the students to school.

The Task Force heard many opinions about encouraging consolidation of districts, but concludes that for many small districts the distances are already so far that it might be unworkable to combine efficiently with adjoining areas. Instead, the Task Force endorses a series of proposals to encourage smaller districts to look for savings by collaborating with other school districts or other units of government and working with Cooperative Educational Service Agencies (CESA) and state government agencies to reduce costs.

### **Reducing Reliance on the Property Tax**

For a state to promote educational excellence, a sustainable and fair system of education finance must be established. It must depend on a revenue stream that is both stable and seen by the broader public as fair. Unfortunately for Wisconsin today, the state's current education finance system relies, in part, on a revenue source -- the property tax --that has come under increasing criticism in recent years. The hostility toward property taxes endangers the future of public education by fostering support for proposals such as the property tax freeze and a so-called taxpayer's bill of rights (TABOR) that would have devastating effects on public schools.

Demographic changes have led to increased tension between homeowners who pay property taxes and the financing of local schools. Over the past thirty years, decisions have been made to exempt certain business property and decrease taxes on agricultural land. As a result, an increasing share of the local tax burden has fallen on homeowners. Furthermore, residential property values have grown much faster than those of any other class of property in the state. Together, these factors have increased the property tax burden on Wisconsin families, as homeowners now pay two-thirds of the property tax bill, up from 50% in 1960.

In addition to this property tax shift to homeowners, another challenge of using property taxes to fund schools is that fewer homeowners actually have children in school. In 1970, about half of homeowners had children under 18, while, today, it is about one third. As many more individuals do not experience a direct benefit from schools, a destructive tension is being created between property taxes and public education. These demographic changes mean that, while there are fewer and fewer households with a personal stake in the public school system, the burden on those households to fund that system through property taxes has grown. That development is certainly not a recipe for stability in public education.

Property wealth, which was once closely linked with income and ability to pay, is now less so for some groups. A growing proportion of homeowners are senior citizens on fixed incomes, a trend that will continue as the Baby Boomer generation ages into retirement. Seniors have seen their property values and their property taxes increase, but their incomes are often much more modest than their home values suggest.

In response to these changing developments, the Task Force recommends shifting a significant portion of the tax burden for public schools from the local property tax and replacing it with

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increased sales tax revenues, to be generated through expanding of the sales tax base and increasing the sales tax rate. In 2000, Wisconsin ranked 11<sup>th</sup> nationally in terms of the amount of property tax paid per \$1,000 of personal income. That ranking is a sharp contrast to how Wisconsin fares with regards to the sales tax. In the same study, Wisconsin ranked 31<sup>st</sup> out of 46 states in terms of the amount of sales tax paid per \$1,000 of personal income. Not only is Wisconsin's sales tax rate lower than many of its neighbors, the tax code is filled with exemptions, often the result of successful political lobbying, rather than sound fiscal policy. The lesson to be drawn here is that while Wisconsin suffers from high property taxes, our sales tax burden is below average.

The Task Force endorses a concept of increasing the state sales tax by one penny (from 5 cents to 6 cents) and closing enough sales tax exemptions to produce a total of \$1.4 billion for use as property tax relief. If the money is distributed through the current state equalization aid formula (one of a number of possible options), the average school property tax reduction would be about 43% and the overall property tax reduction on the total bill would average 20% statewide. While the Task Force does not endorse a specific means for distributing the additional state aid, if the funds were distributed in accordance with the current equalization formula the effect on the school levies would be dramatic, as the example of the state's ten largest districts demonstrates: Milwaukee (-52%), Madison (-37%), Racine (-62%), Kenosha (-49%), Green Bay (-47%), Appleton (-48%), Waukesha (-48%), Eau Claire (-43%), Janesville (-52%), and Oshkosh (-58%). For the owner of a median value home in Wisconsin, the property tax savings should be more than \$500 a year.

The Task Force does not endorse repealing specific exemptions, although we are confident after reviewing the list of all exemptions, that raising adequate funds is possible while maintaining exemptions on necessities such as food, medicine, or health care expenditures. The Task Force recommends that the Governor and Legislature focus on exemptions that would broaden the sales tax to cover more services, especially those that are more discretionary, which would make the tax more stable and robust in today's economy and less regressive. The Task Force also suggests considering the use of some of the tax relief money either to create a sales tax credit or expand the Homestead credit. This would help ensure the benefits are shared by all groups of taxpayers and the higher sales tax rate does not have a detrimental effect on the lowest income taxpayers.

The Task Force also suggests that the growth in revenues in future years from these changes to the sales tax be dedicated to education. The funds could be used to fund some of the specific initiatives outlined in the Task Force's recommendations, or increases general equalization aid that would also help communities reduce future property tax increases.

To characterize this plan as a tax increase for schools is misleading. The plan is a shift in how people pay their taxes, not a change in the total amount of taxes Wisconsin citizens pay for education. Since the Task Force is committed to retaining the revenue caps, school districts will not be able to raise their spending above prescribed limits to take advantage of the lower property taxes. The Task Force believes that for the property tax cut to be meaningful, other units of government should not take advantage of the reductions to increase their own tax levies. While rejecting arbitrary freezes that could endanger local services, the Task Force recommends consideration of mechanisms and incentives, including improving on the number of existing levy restraint programs, to help guarantee that property taxpayers see the full benefit of this tax reduction plan.

## **Conclusion**

In considering these recommendations, it is also important to note that state spending on education is not constant. Even in this biennium when the state faced a historic \$3.2 billion deficit, the Governor and the Legislature were able to make sure public schools received an additional \$189 million in state support. The proposals in our report suggest priorities that should be considered in allocating any additional funds for education. The focus in recent years on increasing equalization aids to achieve two-thirds funding has been an admirable effort to aid local schools and help hold down property taxes. However, it has also meant fewer increases in areas such as special education, bilingual, SAGE and transportation aid that may better address some of the disparate costs different districts experience.

More specific proposals on some subjects might have resulted if the Task Force had relied on majority votes, instead of gaining consensus support for each and every recommendation. But the members believe a less specific recommendation that has the support of the entire wide range of views represented on the Task Force should carry more weight than a more detailed one advocated by a narrower majority of the members.

The following are our detailed recommendations and the rationale for their inclusion in our Agenda for Educational Excellence.